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SUBJECT: MADRID WEEKLY ECON/COMMERCIAL/AG UPDATE JUNE 21-25
UPDATE

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SOLBES DISASSOCIATES HIMSELF FROM JUNE 23 ECONOMIC PACKAGE

¶1. (U) Second Vice President and Finance Minister Pedro Solbes said on June 24 that the freeze in government salaries of high officials announced as one of the 21 measures in the June 23 package would have more of a &psychological than macroeconomic impact. Sources in his ministry also reportedly told Expansion said that they had not participated in the preparation of the 21 measures. (Comment: Observers seem to think that this may be the first salvo for control of economic policy that will take place between Solbes and the Minister of Industry, Tourism and Trade, Miguel Sebastian. In any event, Solbes, recent statement is just the latest example of his occasionally intimating publicly disapproval of certain economic policies approved by President Zapatero. The Second Vice President does not apparently intend to leave the government though.) (Expansion, 6/25/08)

INFLATION RATE PROJECTED TO BE 5.1 PERCENT IN JUNE

¶2. (U) The definitive number will be out by July 11. The projected June inflation rate is twice as high as the June 2007 rate. The inflation rate for the year of 2008 is expected to be around 4 percent. Price hikes in oil, raw materials and food products are responsible for the high inflation rate. (El Confidencial, 6/27/08)

ENEL AND ACCIONA CLASH OVER ENDESA'S RENEWABLES ASSETS, BUT AGREE TO SELL OTHER ASSETS TO E.ON

¶3. (U) Last year, with some controversial GOS help, Italy's Enel and Spanish construction/electricity company, Acciona, edged out Germany's E.ON for control of Endesa, although Enel and Acciona agreed to sell some of Endesa's assets to E.ON. The takeover was the culmination of a two year battle for control of the utility. Since then, Acciona's CEO, Jose Manuel Entrecanales, has apparently moved aggressively to control Endesa, in some cases

successfully against Enel,s will. Enel may, however, be able to exercise leverage over Entrecanales in the next couple of months because Acciona wants to buy Endesa,s renewable energy assets at a favorable price. However, because Acciona is the buyer, the company cannot sit on the corporate entity that will determine the sales price for the assets. Enel will, however, be represented on this body. In the meantime, on 6/26/08, Enel and Acciona sold conventional power plant assets located in Spain to E.ON for euros 11.8 billion. As a result of the sale, Iberdrola is now Spain's largest electric utility. (FT, 6/25/08/Europa Press, 6/26/08)

SMITHFIELD FOODS AND CAMPOFRIO TO CREATE JOINT PAN-EUROPEAN GROUP

¶4. (U) The Spanish meat processing company, Campofrio, is planning to merge with Groupe Smithfield Holdings (GSH) and create a pan-European group. The new company will be a European leader in processed meat products such as cured ham, bacon, and sausages. The new firm will have the name Campofrio and will be listed on the Madrid stock exchange. Campofrio shareholders will own 51.5 percent of the new group and GSH shareholders will own 48.5%. The press is describing the transaction as a friendly merger between equals. (Note: The Ambassador is meeting with Campofrio CEO Pedro Ballve, who will head up the new entity, on July 16.) (Expansion, 6/26/08)

TELEFONICA FIRST COMPANY TO REGISTER AS A LOBBY ON AN EU REGISTRY

¶5. (U) The Spanish telecoms giant was the first European company to sign in with this voluntary registry. Telefonica reported that its lobbying costs were USD 1.5 million in

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¶2007. (IHT, 6/24/08; Expansion, 6/24/08)

ACS/ZACHRY WIN 50 YEAR INFRASTRUCTURE PROJECT IN TEXAS

¶6. (U) The Spanish construction giant has won with its Texas partner, Zachry, a 50-year contract to design, plan and develop an infrastructure corridor of 1,000 kilometers across Texas. This "I-69 Trans Texas Corridor" project will go across Texas from North to South, connecting the Mexican border to the coastal region of the Gulf of Mexico, Houston, and major industrial and logistics centers of Texas with the northern part of the country. (WSJ, 6/26/08)

IBERDROLA TO INVEST HEAVILY IN RENEWABLE ENERGIES IN THE U.S.

¶7. (U) Iberdrola announced in a press release June 26 that it planned to spend over 18 billion euros during 2008-2012 investing in renewable energy projects domestically and abroad. Of that amount, 50 percent is slated for investment in the U.S., 23 percent for investments in Spain, and 25 for the rest of Europe. Iberdrola Renovables invests in all types of renewable energy, but focuses primarily on wind energy. The company also announced plans to invest USD 800 million in gas storage in the U.S.

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